REPORT ON EXAMINATION

OF THE

WESCO INSURANCE COMPANY

AS OF

DECEMBER 31, 2006

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

WESCO INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: ______________________

DATE: 28 JANUARY 2008

In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 28TH DAY OF JANUARY 2008.

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Insurance Commissioner

REPORT ON EXAMINATION

OF THE

WESCO INSURANCE COMPANY

AS OF

December 31, 2006

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

Matthew Denn

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MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 28TH Day of JANUARY 2008.

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October 22, 2007

Honorable Alfred W. Gross
Chairman, Financial Condition (E)
Committee, NAIC
State Corporation Commission
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Richmond, VA 23218

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Office of Insurance
Commonwealth of Kentucky
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Frankfort, KY 40602-0517

Honorable Thomas E. Hampton
Secretary, Northeastern Zone (I)
Rhode Island Department of Business Reg.
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Honorable Kent Michie
Secretary Western Zone (IV)
Utah Department of Insurance
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Salt Lake City, Utah 84114-1201

Honorable Merle D. Scheiber
Secretary, Midwestern Zone (III)
South Dakota Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, IN 46204-2787

Honorable Matthew Denn
Commissioner of Insurance
Delaware Department of Insurance
Rodney Building
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority Number 07-021, dated February 08, 2007, an examination has been made of the affairs, financial condition and management of the

WESCO INSURANCE COMPANY

hereinafter referred to as “Company” or “Wesco”, incorporated under the laws of the State of Delaware. The examination was conducted at the principal offices of the Company, located at 59 Maiden Lane, 6th Floor; New York, New York 10038.

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last financial examination of the Company was conducted by the Delaware Insurance Department as of December 31, 2002. This examination covered the period January 1, 2003 through December 31, 2006, and consisted of a general survey of the Company's business policies and practices; management, any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed and have been commented upon where deemed necessary.

The format of this report is designed to explain the procedures employed on the examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of the examination.

The examination followed rules established by the National Association of Insurance Commissioners (NAIC) Committee on Financial Condition Examiners Handbook, as adopted by the Delaware Insurance Department under Delaware Insurance Code Section 526, and generally accepted statutory insurance examination standards.

In addition to noted items in this report, the following topics were reviewed and are included in the workpapers. No exceptions or errors were noted during our review of these items:

Corporate Records
Fidelity Bond and Other Corporate Insurance
NAIC Financial Ratios
Conflict of Interest
Legal Actions
All Asset and Liability Items not mentioned in this report
Subsequent Events

The examination was conducted by the Delaware Department of Insurance in accordance with the Association Plan of Examination Guidelines established by the NAIC. No states participated in the examination.

Workpapers prepared by the Company's external accounting firm, BDO Seidman, LLP, New York, New York, in connection with the annual audit, were reviewed and relied upon to the extent possible.

HISTORY

The Company was incorporated on December 12, 1962 as a stock property and casualty company under the laws of the State of New Mexico and commenced business on May 29, 1963. The Company continued to conduct business as a New Mexico domiciled company until August 14, 1991 when it redomesticated to the State of Delaware. The Company was engaged in the business of providing credit property and involuntary unemployment insurance.

Until 1991, the Company was a wholly-owned subsidiary of American Centennial Insurance Company (ACIC), which in turn was a wholly-owned subsidiary of Consolidated International Insurance Group, Inc. (CIG). On December 26, 1991, ACIC transferred the Company to another affiliate, Consolidated Insurance Group of America, Inc. (CIGA).

On July 9, 1993, CIGA sold all of the common stock of Wesco to Beneficial Insurance Group Holding Company (BIG), a wholly-owned subsidiary of Beneficial Corporation (Beneficial). As part of the sale, Beneficial merged an existing Delaware domiciled insurance company, Wilmington Property and Casualty Company, into Wesco. Beneficial remained the ultimate controlling entity from that date until June 30, 1998 when Household International, Inc., (HI) and Beneficial completed a corporate merger. Concurrent with the merger, BIG changed its name to Household Insurance Group Holding Company (HIG). HI succeeded as the ultimate parent company.

On March 28, 2003, the Company was indirectly acquired by HSBC Holdings, plc, as a result of its acquisition of HI, the previous ultimate parent of HIG. On June 1, 2006, the stock of the Company was sold by HIG to Am Trust Financial Services, Inc. (AFSI). See the Territory and Plan of Operation section of this report for information related to the fronting of Insurance business previously written on HIG paper.

The Company's registered office in the State of Delaware is located at 874 Walker Road, Suite C, Dover, Delaware 19904. The registered agent upon whom legal process may be served is the Delaware Commissioner of Insurance.

CAPITALIZATION

As of the examination date, paid up capital amounted to $2,500,000, consisting of 2,000 shares of authorized, issued and outstanding stock with a par value of $1,250 per share. All of the issued and outstanding shares are owned by AFSI. Paid-in and contributed surplus funds amounted to $17,980,603. The following changes occurred in the capital and surplus accounts since the date of the last examination:

Description	Gross Paid-in Common Capital Stock	Paid-in & Contributed Surplus Funds	Unassigned Surplus	Totals
Ending Balance 12/31/02	$2,500,000	$7,980,603	$136,241,838	$146,722,441
2003 Dividends			(25,000,000)	(25,000,000)
2003 Operations			72,497,118	72,497,118
Ending Balance 12/31/03			183,738,956	194,219,559
2004 Dividends			(30,000,000)	(30,000,000)
2004 Operations			61,177,545	61,177,545
Ending Balance 12/31/04			214,916,501	225,397,104
2005 Dividends			(101,682,993)	(101,682,993)
2005 Operations			58,066,870	58,066,870
Ending Balance 12/31/05			171,300,378	181,780,981
2006 Dividends			(168,714,213)	(168,714,213)
2006 Capital Paid-In		10,000,000		10,000,000
2006 Operations			2,914,513	2,914,513
Ending Balance 12/31/06	$2,500,000	$17,980,603	$5,500,678	$25,981,281

Operations is defined as: Net income, net realized and unrealized capital gains or losses, change in net deferred income tax, change in non-admitted assets and related items, change in excess of statutory reserves over statement reserves, and cumulative effect of changes in accounting principles.

The above capital and surplus accounts reflect the correct balances as of December 31, 2006. However, the Company did not correctly report capital paid-in in the 2006 Annual Statement. While the above amounts agreed to the capital and surplus per the annual statement, the Company did not properly state on the balance sheet under Capital and Surplus and in the Cash Flow statement a $10 million capital contribution to paid in and contributed surplus. The GL accounts reflected the correct balances within the paid-in and unassigned surplus accounts. The Company reported the $10 million in the cash flow statement as “Borrowed Funds.” The “Unassigned” amount should have been $5,500,678 and paid-in and contributed surplus funds should have been stated as $17,980,603.

Further, the Company did not report in Schedule Y or the "Notes to the Financial Statement" the capital contribution of $10 million from AFSI to Wesco.

It is recommended that the Company exercise due care by properly reporting future capital contributions in the required "Notes, Schedules and Exhibits" of its annual statements.

It should be noted that the Company reported the balances correctly in its 2nd Quarter Statement.

DIVIDENDS TO STOCKHOLDERS

The Company is subject to statutory and regulatory restrictions imposed by the State of Delaware on insurance companies, which limit the amount of cash dividends that may be paid to the shareholder. Under Delaware law, cash dividends may be paid only from realized net profits and realized capital gains. Additionally, the maximum aggregate amount of ordinary dividends that any Company may declare or pay during any twelve (12) month period is the greater of 10 percent of its surplus as of the preceding year or statutory income for the prior calendar period, unless written approval by the Delaware Insurance Commissioner granting a greater amount is obtained (extraordinary dividends).

According to Company records for the years indicated, and as reflected in minutes to its Board of Directors' meetings, dividends have been declared and paid to the past parent, HIG, during the examination period, as follows:

Year	Cash Dividend
2003	$ 25,000,000
2004	30,000,000
2005	101,682,993 *
2006	168,714,213 *
Total	$325,397,206

* Extraordinary dividends were approved by the Delaware Department of Insurance.

It should be noted that Wesco paid a final liquidating dividend of $168,714,213 prior to closing of the sale to AmTrust Financial Services, Inc. This dividend was approved by the Delaware Department of Insurance. It was noted, however, that the Company did not reflect in its 2006 Annual Statement "Schedule Y" or "Notes to Financial Statement" dividends paid by the Company to its previous parent, HI.

It is recommended that the Company report all payment of dividends in the appropriate annual statement schedules and "Notes" in accordance with Annual Statement Instructions.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined under Chapter 50 "Insurance Holding Companies" of 18 Delaware Insurance Code.

Since the last examination, the Company was acquired by AFSI on June 1, 2006 from Household Insurance Group Holding Company for a purchase price of $22.5 million.

AFSI is a NASDAQ listed company headquartered in New York City. It is a multinational property and casualty insurer specializing in coverage for small businesses. It offers workers' compensation insurance, extended warranty coverage, specialty middle-market property and casualty insurance and a host of related products and services.

The ultimate controlling parties are Michael and George Karfunkel through their ownership of G/MK Acquisition Corp. and New Gulf Holdings, Inc., which, as of the examination date, beneficially owned in the aggregate 58.7 percent of the issued and outstanding shares of common stock of AFSI and Barry Zyskind, who beneficially owned 41 percent of the issued and outstanding shares of common stock of AFSI through his interest in G/MK Acquisition Corp.

As of December 31, 2006, AFSI directly or indirectly, owned 100% of the outstanding shares of the common stock of the following insurance companies: Wesco Insurance Company (DE), Technology Insurance Company (NH), Rochdale Insurance Company (NY), AmTrust International Insurance, Ltd (Bermuda) and AmTrust International Underwriters, Ltd (Ireland). As noted on the organizational listing, AFSI acquired in 2007 IGI Group, Ltd., which is a United Kingdom specialty insurer.

An organizational listing of subsidiary companies in the Holding Company System of which the Company was a member as of December 31, 2006 is as follows:

AMTRUST FINANCIAL SERVICES, INC. (DE)

SUBSIDIARIES LIST

Entity Name	**Jurisdiction of Incorporation or Formation**
Wesco Insurance Company	Delaware
Technology Insurance Company, Inc.	New Hampshire
Rochdale Insurance Company	New York
AmTrust International Insurance Limited	Bermuda
AmTrust International Underwriters Limited	Ireland
AmTrust Nordic AB	Sweden
AmTrust Management Services Limited	United Kingdom
AmTrust North America, Inc.	Delaware
AmTrust South, Inc	Delaware
AmTrust Underwriters, Inc.	Delaware
AMT Service Corp.	Delaware
AII Insurance Management Limited	Bermuda
Rock Run South, LLC	Delaware
AII Reinsurance Broker Limited	Bermuda
AmTrust Capital Management, Inc.	Delaware
The Princeton Agency, Inc.	New Jersey
United Underwriting Agency, Inc.	New York
AmTrust Managers, Inc.	Delaware
AMTS Holding Corp.	Delaware
AMT Service Corp. of Canada, ULC	Canada
North American Risk Management, Inc.	Florida
AFS Capital Corporation	Texas
I.G.I. Group Limited	England*
Shield Total Insurance Limited	England
I.G.I. Insurance Company Limited	England
I.G.I. Administration Services Limited	England

* 2007 Acquisition

A Holding Company Registration Statement was filed by the Company on April 30, 2007, with the Delaware Insurance Department. However, it should be noted that the filed Form B and C did not reflect a General Agency agreement with an affiliate, AmTrust North America, Inc. as noted in the filed 2006 Annual Statement under the caption "Notes to Financial Statement. This is not in accordance with 18 Delaware Insurance Code Section 5005 (a) (2) (d) and Regulation 1801.

It is recommended that the Company include all transactions and agreement with parent, affiliates and subsidiaries in its Form B and C filings per Delaware statues and Regulations. It is further recommended that the Company amend its Form B filing to denote its affiliated transactions with AmTrust North America.

Additional comments are noted under the caption "Other Affiliated Agreements."

MANAGEMENT AND CONTROL

Control

Wesco is a wholly owned subsidiary of AFSI which is the ultimate parent. As of December 31, 2006, AFSI reported the following:

Assets	$ 1,185,400,000
Total Stockholder's equity	340,500,000
Net Income	48,900,000

Management and Directors

The Company's By-laws as amended to date, state that the affairs of the Company shall be managed by its Board of Directors consisting of 5 members who may or may not be stockholders. As of the examination date the Company had five (5) directors. Directors are elected at the annual meeting of the stockholder and each Director serves for the term of one (1) year until the election and acceptance of their duly qualified successor.

The Board of Director's are scheduled to meet on a quarterly basis. Special meetings of the Board may be called by the Chairman of the Board or Vice Chairman, or at the request of the majority of the Board members. As required by its By-Laws, a quorum for board meetings is defined as all five (5) board members elected and serving As of December 31, 2006, there were outside directors and the following individuals served as directors:

Director Name	Affiliation
Michael Karfunkel	Chairman
Barry D. Zyskind	President and Chief Executive Officer,
Donald T. DeCarlo	Attorney – Non Affiliated
George Karfunkel	Shareholder
Jay J. Miller	Attorney – Non-affiliated

Committees

Directors and officers appointed to committees and serving as of December 31, 2006 were as follows:

Audit Committee
Michael Karfunkel
Jay J. Miller
Donald T. DeCarlo

Investment Committee
Michael Karfunkel
Barry D. Zyskind
Jay J. Miller

There were no actions of the Audit and Investment committees to be ratified by the Board of Directors at their regular quarterly meetings.

The minutes of the meetings of the Stockholder and Board of Directors, which were held during the period of examination, were read and noted. Attendance at meetings, election of directors and officers, and capital and dividend transactions were also noted. The Board minutes did reflect approval of investment transactions.

Officers:

As required by its By-Laws, officers serving the Company shall be a President, Secretary, Treasurer, and Vice President.

The following officers had been elected by the Board of Directors and were serving at December 31, 2006:

Officer Name	Title
Barry D. Zyskind	President and Chief Executive Officer
Stephen B. Ungar	Secretary and General Counsel
Eli Tisser*	Treasurer
Harry Schlachter	Vice President

- Eli Tisser, Treasurer of the Company resigned on June 1, 2007.

Conflict of Interest

Inspection of Company files indicated that Conflict of Interest/Compliance Questionnaires were distributed and signed by all the principle officers of the Company.

MANAGEMENT, SERVICE AND TAX AGREEMENTS

The Company participated in the following agreements during the period under examination. A brief summary of the agreements follows:

Tax Allocation Agreement with AFSI

The Company participates in a federal income tax allocation agreement with the parent and other members of the AmTrust Financial Group. Under the agreement, federal income tax expense and benefits are allocated in the ratio that the Company's separate tax return liability or benefit bears to the total tax liabilities and benefits of the group. The amounts allocated to Wesco during the period of examination were reviewed and determined to be appropriate.

Inter Company Management Agreement with AFSI

The Company has no employees and pursuant to a management service agreement with AFSI, utilizes the services of its parent, its officers and employees, to conduct all operations of the Company. The accounting, financial reporting and marketing functions are performed out of AFSI's administrative office, located in New York, New York. Under this agreement, the Company reimburses AFSI for the following services performed:

- Financial services – financial and accounting including maintenance of fiduciary account and maintenance of books and records;
- Administrative services – regulatory filings
- Underwriting services – appointment of producers and marketing
- Compensation – general operation expenses

The contract provides that on a quarterly basis, all expenses incurred by AFSI on behalf of Wesco will be allocated in a manner consistent with Title 18 Delaware Insurance Code 5005 (a). For the year ending 2006, the Company paid $980,664 to AFSI for services rendered under the agreement.

OTHER AFFILIATED AGREEMENTS

From a review of the 2006 filed Annual Statement "Notes to Financial Statement" and general ledger, it was determined that there was an agreement and transactions between Wesco and affiliate, AmTrust North America, Inc. to provide marketing services. However, it was determined that the Company did not execute nor file such agreement with the Department.

As a result of the above affiliated agreement and transactions that occurred in 2006 without submission and/or approval to the Department, the Company was in violation with Regulation 1801 and Title 18 Delaware Insurance Code Section 5005 (a).

It is recommended that the Company submit and file all affiliated agreements with the Department for approval prior to implementation.

It was noted that on June 29, 2007, the Company executed and submitted a Form D to the Delaware Department of Insurance for approval of this agreement with AmTrust North America, Inc., which was granted on August 21, 2007.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write insurance in all fifty (50) states and the District of Columbia. The Company is a multiple lines property and casualty company with a specialty in workers compensation, auto physical damage, private passenger auto liability and other liabilities such as extended warranty coverage. As noted in the History section of this report, the Company was purchased on June 1, 2006 by AFSI. Only a small volume of new direct business was written through year end 2006. In accordance with the terms of its sale, the Company fronted renewal business originally written through HSBC on its paper. This business was ceded 100% to HSBC Insurance Company of Delaware (authorized reinsurer), the payment of which is guaranteed by HIG Holdings. For the year ending 2006, this business amounted to $61,834,554 and represented 83.7 percent of total direct written premiums. For this business, the Company received a ceding fee of 2 percent of net premiums and net policy fees.

The business plan of Wesco is to write business in AmTrust's specialty middle market property casualty segment. This allows AmTrust to expand into states in which other insurance affiliates are not yet licensed. In addition, the Company enables AmTrust to establish dual rates for workers compensation in certain states, so that other insurance affiliates/subsidiaries can write both its traditional small employer workers' compensation and the middle market business at appropriate rates. This business is 90 percent reinsured by affiliates Technology Insurance Company (authorized) and Am Trust International Insurance, Ltd. (unauthorized).

The processing of the premiums and the payment of claims are handled out of the Rocky Hill, CT office and the Company utilizes the services of AmTrust North America, Inc.

REINSURANCE

The Company's net premiums written in the amount of $7,930,098 were comprised of direct premiums. The schedule below reflects the Company's net premiums as of December 31, 2006:

Net Premiums Written

Direct Premiums:	
HSBC	$ 61,834,554
Other lines	12,025,163
Total direct premiums	$ 73,859,717
Assumed Premiums:	
HSBC	$ 6,086,044
Other lines	-0-
Total assumed premiums	$ 6,086,044
Gross premiums written	$ 79,945,761
Less Ceded Premiums:	
HSBC	$(67,539,406)
Other lines	(4,476,257)
Total ceded premiums	$(72,015,663)
Net premiums written	$ 7,930,098

Assumed Reinsurance

The Company reported assumed reinsurance agreements with six companies in its 2006 Annual Statement Schedule F Part 1, as follows:

Name of Reinsured	2006 Assumed Premium
American Bankers Insurance Group	$ 5,988,000*
American Reliable Insurance Company	3,000
American Security Insurance Company	6,000
Ohio Indemnity Company	32,000
Southern County Mutual insurance Company	(42,000)
Virginia Surety Insurance Company	99,000
Total Assumed Premium	$ 6,086,000**

* Significant Assumed Reinsurance Agreement outlined below.
** Differences due to rounding

On or before June 1, 2006, the Company, in connection with its acquisition by AFSI, terminated all of the assumed reinsurance contracts listed above.

Ceded Reinsurance

The Company reported ceded reinsurance agreements with thirteen (13) companies in its 2006 Annual Statement Schedule F and the reinsurers are as follows:

Name of Reinsurer	2006 Ceded Premium
Am Trust International Insurance Company (Affiliate) (U)	$ 2,839,000*
Technology Insurance Company (Affiliate) (A)	713,000*
HSBC Insurance Company of Delaware (A)	65,416,000*
National Union Fire Insurance Co. of Pittsburgh (A)	2,128,000*
General Reinsurance Corporation (A)	29,000
Midwest Employers Casualty Company (A)	68,000
Safety National Casualty Corporation (A)	1,000
Houston Casualty Corporation (A)	1,000
Odyssey America Reinsurance Corporation (A)	1,000
Syndicates and Pools (Various) (A)	814,000
Endurance Specialty Insurance Limited (U)	2,000
Catlin Insurance Company, Ltd (U)	3,000
Quanta Reinsurance Ltd. (U)	1,000
Total Ceded Premium	$ 72,016,000**

(*) Significant Ceded Agreements Outlined Below; (A) Authorized; (U) Unauthorized
** Differences due to rounding

The significant cessions by contract are discussed below.

Affiliated:

AmTrust International Insurance Limited/Technology Insurance Company Reinsurance Agreement

70% quota share of the Company's ultimate net loss to Am Trust International Insurance Limited (Unauthorized) and a 20% quota share of the Company's ultimate net loss to Technology Insurance Company. This agreement was approved by the Department and became effective June 1, 2006. The Company maintains a retention liability of 10 percent.

Non-Affiliated

HSBC of Delaware Quota Share Reinsurance Agreement

100% quota share participation of the Company's gross liability under any and all new and renewal policies issued by or on behalf of the Company, except those issued within the state of Florida, which are produced by or through the General Agent (BFC Insurance Agency of Nevada). This agreement became effective June 1, 2006 and was in accordance with the sale of the Company by HSBC and covers that business fronted through the Company by HSBC.

NUFIC-BFC 100% Quota Share Reinsurance Agreement

100% quota share participation of the Company's gross liability under any and all new and renewal policies issued by or on behalf of the Company within the state of Florida as part of its fronting arrangement with HSBC, which are produced by or through the General Agent (BFC Insurance Agency of Nevada). HSBC of Delaware was not licensed in the state of Florida at the time of the reinsurance transaction. This agreement became effective June 1, 2006

GROWTH OF THE COMPANY

The following information was extracted from the Company's filed Annual Statements and covers the four (4*)* years from the last examination dated December 31, 2002 to December 31, 2006:

Years	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income	Gross Premiums Written	Premiums Earned
2006	$ 38,534,489	$ 12,553,208	$ 25,981,281	$ 5,897,697	$ 79,945,761	$ 2,365,016
2005	195,768,316	13,987,335	181,780,981	59,681,688	102,008,228	80,206,841
2004	310,110,552	84,713,448	225,397,104	61,854,226	85,874,153	114,952,129
2003	309,194,494	114,974,935	194,219,559	73,219,863	87,721,556	143,065,693
2002	321,045,961	174,323,520	146,722,441	70,776,360	125,585,263	166,467,712

The material changes reflected in the above chart for 2006 from previous years 2003 to 2005 was the result of a sale of the Company by the former parent Household International, Inc. to AFSI in June 2006. As noted under other captions "Capitalization, Dividends to Stockholders, Territory and Plan of Operation", material changes occurred in dividends paid to stockholders prior to the sale including a change of business writings on the part of Wesco after the sale and under the direction of new management control which was reflective in the admitted assets, premiums earned, investment income and net income. Bonds, cash, and short-term investments accounted for 77 per cent of the admitted assets at December 31, 2006 with 100 per cent of the bonds being Class 1 graded issues.

In late 2006, the Company's parent, AFSI, began trading on the NASD. However, at the examination date, it had not been rated by Standard & Poor’s, Moody’s or Fitch.

ACCOUNTS AND RECORDS

Pursuant to the Management Service Agreement between Wesco and AFSI, financial accounting records are processed and maintained in conjunction with AFSI’s computer systems. The Company performs full system backups and rotates copies of programs and data files to its off-site storage facility in accordance with a schedule designed to sufficiently protect the records of the Company. The Company has a disaster recovery plan that covers its mainframe operations. The plan is periodically tested.

The internal control structure for Wesco accounting systems was discussed with management and reviewed after completion of questionnaires developed by the NAIC and the Delaware Department of Insurance. The Company utilized a functional but limited general ledger accounting system software called “QuickBooks” but as represented by Management, due to the growth of the AmTrust Group, the Company is replacing QuickBooks with a more sophisticated accounting system. The statutory-basis financial statements of the Company are audited annually by BDO Seidman, LLP, an independent certified accounting firm. A review of the Management letter presented indicated no significant deficiencies or material weaknesses but provided observations on improvement of its business operations for the AmTrust Group considering the parent company going public in late 2006 and therefore subject to financial reporting and internal control provisions of Sarbanes Oxley (Section 404 of the SOX Act). The Company’s accounts and records are also subject to review by the Company’s audit and investment committees.

Based on the examination review of Annual Statement classifications and discussions with management, the accounting system and procedures generally conformed to insurance accounting standard practices and requirements with the exception of those discussed under the following captions:

- Capitalization
- Dividends
- Insurance Holding Company System
- Other Affiliated Agreements

Additional comments are made under the above captions.

FINANCIAL STATEMENTS

The financial position of the Company as of December 31, 2006, as determined by this examination is presented in the following exhibits:

Assets, Liabilities, Surplus and Other Funds, as of December 31, 2006
Underwriting and Investment Exhibit Statement of Income, as of December 31, 2006
Surplus Account for the period of January 1, 2002 to December 31, 2006
Examination Financial Changes

Analysis of Assets
As of December 31, 2006

	Assets	Non-Admitted Assets	Net Admitted Assets	Notes
Bonds	$ 4,984,398	$ -0-	$ 4,984,398	1
Cash $3,519,745, and short-term investments $21,499,999	25,019,745		25,019,745	2
Investment income due and accrued	44,060		44,060	
Premiums and considerations:				
Uncollected premiums, agents' balances in course of collection	7,623,207		7,623,207	
Deferred premiums, agents' balances and installments booked, but earned but unbilled	1,115,004		1,115,004	
Accrued retrospective premiums	(920,450)		(920,450)	
Net deferred tax asset	447,963		447,963	
Aggregate write-ins for other than invested assets				
Prepaid claims	143,213		143,213	
Prepaid expenses	77,349		77,349	
Total Assets	$38,534,489	$ -0-	$38,534,489	

Statement of Liabilities, Surplus and Other Funds
As of December 31, 2006

		Notes
Losses	$853,700	3
Loss adjustment expenses	3,153	
Contingent commissions	30,863	
Other expenses	150	
Taxes, licenses and fees	340,322	
Unearned premiums	6,294,042	
Ceded reinsurance premiums payable	104,515	
Funds held under reinsurance treaties	3,550,505	
Payable to parent, subsidiary and affiliates	2,219,059	
Aggregate write-ins for liabilities		
Payable for taxes recoverable	77,349	
Retro liability payable HSBC	(920,450)	
Total Liabilities	$12,553,208	
Common capital stock	2,500,000	
Gross paid-in and contributed surplus	17,980,603	
Unassigned funds (surplus)	5,500,678	
Surplus as regards policyholders	$25,981,281	
Total Liabilities and Surplus	$38,534,489	

* Differences due to rounding

Statement of Income

Premiums earned	$ 2,365,016
Losses Incurred	935,699
Loss expenses incurred	15,639
Other underwriting expenses	(2,264,597)
Total underwriting deductions	(1,313,259)
Net underwriting gain	$ 3,678,275
Net Investment income	3,623,284
Net realized capital gains	13,084
Net investment gain	$ 3,636,368
Federal and foreign income taxes	1,416,946
Net income	$ 5,897,697

Capital and Surplus Account

Capital and surplus, December 31, 2005	$ 181,780,981
Net income	5,897,697
Change in net deferred income tax	447,963
Change in non-admitted assets	2,144,335
Surplus adjustments:	
Paid in	6,568,853
Dividends to Stockholders	(168,714,213)
Aggregate write-ins for gains and losses in surplus	(2,144,335)
Change in Surplus as regards policyholders for the year	(155,799,700)
Capital and surplus, December 31, 2006	$ 25,981,281

Examination Financial Changes

No financial changes were made for examination report purposes except for the correct reporting of balances for the capital paid in and unassigned surplus accounts as noted in under the caption Capitalization. The net affect to surplus was zero.

NOTES TO FINANCIAL STATEMENTS

Assets

Note 1, Bonds	$ 4,984,398

Bonds comprised 12% of the assets at year-end and bonds were all U.S. Treasuries. The Company Board of Directors minutes reflected approval of the investment transactions in accordance with 18 Delaware Insurance Code Section 1304.

Note 2. Cash	$3,519,745
Short-term Investments	$21,499.999

Cash and short-term investments comprised 65 percent of admitted assets as of December 31, 2006. The examiner utilized the confirmations from workpapers of the Company outside auditors, BDO Seidman, LLC. There were no exceptions noted.

It should be noted that the Company Board of Directors minutes reflected approval of the investment transactions in accordance with 18 Delaware Insurance Code Section 1304.

Liabilities

Note 3. Losses	$ 853,700
Loss Adjustment Expenses	$ 3,153

Due to the immateriality of loss and loss adjustment expenses, the Delaware Department of Insurance did not conduct an independent review of those liabilities. After being acquired in June 2006 by AFSI, the Company wrote a minute amount of business and all other direct business written and assumed was ceded out 100 percent to affiliates of HSBC or to current affiliates on a 70/20 reinsured basis. Thus, maintaining a 10 percent net retention.

The examination of the losses and loss adjustment expense reserve took in consideration the actuarial analysis performed and opinions expressed by the Company's outside actuaries: 1)

Huggins Actuarial Services and 2) SGRISK Actuaries and Consultant. Huggins evaluated the Company's book of business by line of business for loss and allocated loss adjustment expenses for accident years 2006. SGRISK evaluated the Company's 2006 book of business for workers compensation and also general liability, automobile liability and automobile physical damage but on a combined basis for the group (Wesco, Technology and Rochdale).

The conclusions reached by both are largely based upon information supplied by the Company's staff. Also, the examination utilized the work performed by the Company's outside auditors, BDO Seidman, LLP. The aggregated actuarial data provided by the Company, was verified and balanced to Schedule P of the Company's filed annual statement.

Also, the examiner utilized the work performed by the Company's outside auditors on completeness testing ascertaining the reliability of the data utilized in the preparation of Schedule P by the Company.

COMPLIANCE WITH PRIOR REPORT OF EXAMINATION

The prior examination report contained no recommendations.

RECOMMENDATIONS

Capitalization

It is recommended that the Company exercise due care by properly reporting future capital contributions in the required "Notes, Schedules and Exhibits" of its annual statements. (Page 6, Capitalization)

Dividends

It is recommended that the Company report all payment of dividends in the appropriate annual statement schedules and "Notes" in accordance with Annual Statement Instructions. (Page 7, Dividends to Stockholders)

Insurance Holding Company System

It is recommended that the Company include all transactions and agreements with parent, affiliates and subsidiaries in its Form B and C filings per the Delaware statues and Regulations. It is further recommended that the Company amend its Form B filing to denote its affiliated transactions with AmTrust North America, Inc. (Page 9, Insurance Holding Company System)

Other Affiliated Agreements

In the future, it is recommended that the Company submit and file all affiliated agreements with the Department for approval prior to implementation. (Page 13, Other Affiliated Agreements)

CONCLUSION

As a result of this examination, the financial condition of Wesco Insurance Company, as of December 31, 2006 was determined to be as follows:

Description	12/31/06 Current Examination	12/31/02 Prior Examination	Changes Increase (Decrease)
Assets	$ 38,534,489	$321,045,961	$ (282,511,472)*
Liabilities	12,553,208	174,323,520	(161,770,312)*
Capital and Surplus	25,981,281	146,722,441	(120,741,160)*

*Significant changes occurred after the Company was acquired in June 2006 by AFSI.

Respectfully submitted,

Darryl Reese, CFE, CIE
Examiner-in-Charge
State of Delaware